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CABINET

DEFENCE AND OVERSEA POLICY (OFFICIAL) COMMITTEE
SUB-COMMITTEE ON THE SOUTH ATLANTIC AND FALKLAND ISLANDS

ARGENTINA: ANTI-BRITISH RETALIATION

Note by the Secretaries

A Note prepared by the Foreign and Commonwealth Office in consultation with other Departments following discussion at ODO(SA)(82) 2nd Meeting, is attached in the form in which it was submitted to the Defence and Oversea Policy Committee. The Sub-Committee will wish to discuss the implications of this note, and the preparation of a further report, at a future meeting.

Signed C H O'D ALEXANDER
G R G MIDDLETON
S D SPIVEY

Cabinet Office

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1. This paper considers the scope for action against British economic interests in Argentina and against the British community there. It is a preliminary assessment. We have not consulted the firms concerned.

ECONOMIC INTERESTS

2. Argentina has already retaliated against the United Kingdom by:-

- (a) banning payment for imports of goods and services from the United Kingdom (including payment of dividends on our investment there);
- (b) suspending repayments of loans from the United Kingdom.

Further action remains open to the Argentine authorities, including the confiscation of British assets.

Exports

3. The value of British exports to Argentina in 1980 (predominantly machinery and power generation equipment) amounted to £173 million. Argentina is our third largest market in Latin America but it ranks only 42nd in our world table. About 60% of our exports are covered by ECGD who have firm commitments for business worth £290 million.

4. Apart from possible claims incurred on ECGD, restrictions on British exports to Argentina are not likely to have a significant impact on our trading position worldwide. Our initial assessment shows no serious industrial or employment consequences in the UK.

Direct Investment

5. The UK has about 8% of Argentina's foreign investment. The latest book value of our investments is about £200 million but we believe the current value may be higher. This represents about 15% of our total investment in South America.

6. Investors in the manufacturing sector include ICI, Unilever, Dunlop, EMI, Black and Decker, Burroughs Wellcome, Coats Paton, Gestettner, Tube Investments, Rank, Pilkington Reckitt & Coleman, GEC, Babcocks and John Brown Engineering. None are thought to have very substantial investments in Argentina, relative to their global overseas investments. Shell have some offshore and refining operations: they are withdrawing 19 British staff present.

7. Although British holdings in the Argentine meat industry were substantial in the past, they are now thought to be negligible, with both Union International (Vestey) and Brooke Bond, Liebigh having little at risk.

8. In the banking sector Barclays Bank and Lloyds Bank International (Bank of London and South America) lend on the domestic Argentine market. They are feeling the effects of being denied interbank funding and are rumoured to have lost deposits heavily. The Bank of London and South America have a particularly important stake with 37 branches in Argentina. They are the third largest foreign owned bank in Argentina with deposits totalling the equivalent of \$315 million.

9. Confiscation of British assets would be unwelcome but would probably not have serious consequences for the UK economy or even for the majority of companies involved, except in the banking sector.

Financial Interests

10. The claims of UK banks (British and foreign) on Argentina were \$3.8 billion at the end of 1981. The claims of British banks alone were \$2.9 billion in mid 1981, making us Argentina's second largest creditor after the United States.

11. The Argentine Government's decision to suspend foreign currency payments to the United Kingdom could mean delays in loan repayments and payments for importers and restrictions on payments of dividends to shareholders in the UK. While

uncertainties surrounding the Argentine situation have already caused misgivings among international bankers, a formal repudiation of loan repayments, while damaging to the lending banks, would seriously affect Argentina's creditworthiness and consequent capacity to raise money in the markets.

Transport

12. British Caledonian serves Buenos Aires on its route via Sao Paulo to Santiago (Chile). The loss of this operation would cost about £9 million per year. Anglo/Argentine shipping business is divided 50:50, in line with Argentine legislation. British shipping interests have hitherto earned about £12 million per year.

THE BRITISH COMMUNITY

13. Since 5 April, the BBC has been transmitting advice to British citizens in Argentina to make plans to leave the country by normal commercial means unless they have a pressing need to stay. The Embassy in Buenos Aires has been issuing advice, as will also the British Interests Section in the Swiss Embassy.

14. There are about 17,000 UK passport-holders: and a further 30,000 who might be entitled to UK passports. The large majority of these are firmly established in Argentina in the professional and commercial sectors. Our Embassy estimate that perhaps 7,500 short stay British citizens might wish to leave.

15. The Argentine Government could take a number of measures against the Community. The authorities can be expected to concentrate first on retaliation to our moves to freeze bank accounts. - This may not be so simple: most of the British community are residents of Argentina, not of the UK; and the expatriate community are experts in moving their money around so as to avoid loss by inflation or devaluation.

16. The authorities could also take action against British institutions such as the British Community Council and perhaps also the English/Spanish bilingual schools.

Foreign and Commonwealth Office
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